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ABSTRACT

A study was conducted to determine labor market factors influencing one's psychological well being and economic security after retirement. Research was found that supported the hypotheses that a worker's employment, earnings, and industry in the labor force greatly affect a retiree's financial position; the reason for labor force withdrawal influences economic position and outlook toward life; a positive relationship exists between income and life satisfaction; and health problems and job satisfaction influence life satisfaction after retirement. Data were drawn from the older men's cohort of the National Longitudinal Surveys of Work Experience. A logarithmic function of the income received from pension and Social Security was used to measure income. Life satisfaction was measured by response to a question regarding how happy the respondent was with his life. It was found that workers with successful labor market experiences were likely to have a better financial situation in retirement that was transmitted into greater life satisfaction. Whites appeared psychologically affected by job loss, while blacks' ties to the labor market were purely financial. Life satisfaction was not related to the comparison of retirement to preretirement income but was related to the absolute level of income after retirement. (Three tables are appended.) (YLB)

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The Impact of Preretirement Labor Market Experiences on Postretirement Well-Being

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Through the implementation of Old Age Survivors Disability and Health Insurance (OASDHI) our society has set forth the policy that an individual who has devoted a large portion of his life to labor should be able to spend his later years in retirement maintaining a comfortable standard of living. This goal is further reinforced in the private sector by providing pensions to workers who have faithfully served their companies. Between public and private support, a worker is frequently able to withdraw from the labor force once he reaches his sixties with income sufficient to live a comfortable life. However, a relatively large proportion of the elderly are living below the poverty level. In 1977, of those persons 65 and over, 11.9 percent of the whites and 36.3 percent of the blacks had incomes below the poverty level (U.S. Bureau of Census, 1979). With the exception of those under age 14, no other age group faces such low income levels. Alternative measures of poverty show that one-fourth of all aged families have inadequate levels of resources and that by most definitions, poverty among the elderly is understated (Moon, 1979). Thus, even though society desires comfortable living for the aged, in reality the goal is only realized for a portion of the population.

Poverty is but one problem facing the elderly. The loss of status, prestige, and, frequently, the principal reason for being--a job--can be a traumatic occurrence. Socio-psychological literature shows that retirement is a stressful life event and often results in unhappiness, loss of useful feelings, and nostalgia for one's job (Palmore et al, 1979; Atchley, 1975). Therefore an individual entering retirement must worry about psychological well-being as well as financial status.

While psychological well-being and economic security after retirement are correlated (Heidbreder, 1972) it is also likely that they are associated to some extent with aspects of one's earlier work experiences. This study is an

attempt to pull together the labor market factors influencing one's retirement. It first deals with the factors influencing a retiree's income and then looks at the factors influencing a retiree's satisfaction with life.

WORK AND RETIREMENT

The major sources of income for retired individuals are Social Security and private pensions, both of which are directly tied to an individual's experiences while in the labor market. Social Security is based on the average monthly earnings of the worker while pension coverage and availability differ by industry (Kolodrubetz and Landay, 1975; Beier, 1971) and vary by earnings and length of company service. Hence, a worker's employment, earnings and industry while in the labor force should play a major role in a retiree's financial position once out of the labor force. Past research lends support to this hypothesis. Henle (1972) finds that the relation between a person's benefits at retirement and his preretirement earnings (replacement ratio) varies by marital status, age at retirement, sex and industry: a married man retiring at age 65 under a private pension plan replaces at least 60 percent of his earnings, but a single man retiring at age 62 not entitled to any private pension benefits replaces only 20-25 percent of his income. Schultz et al (1979) calculate replacement ratios of pension plans for several industries--assuming equal earnings and length of service--and find replacement ratios as high as 34 percent in the financial, insurance, real estate, communication and utilities industries and as low as 15 percent in the service industry. Unfortunately, neither study employs techniques which control for other factors affecting postretirement income. Schultz et al only account for pension income and fail to account for early retirement while Henle does not account for job tenure.

Earnings, length of service, and industry are not the only labor market factors that could affect a worker's retirement income. There is a segment of the population who are forced to withdraw from the labor force because of poor health or because work is not available. Even though these workers are forced from the labor force, their relatively advanced age leads society to classify them as retired. Because many of these individuals probably have had previous unsuccessful labor market experiences, there is no reason to expect that they will have successful retirement experiences. That is, because of their tenuous relationship with the labor market they have not built up seniority with a company, have had low earning levels, and have not been able to save money for retirement. Therefore, when these individuals "retire" from the labor force they are forced to take reduced Social Security benefits at age 62 (assuming they are eligible), and small pensions, if available; furthermore, these individuals are unlikely to have savings or other assets to fall back on. Another group of individuals are forced into retirement because of company compulsory retirement plans. These individuals do not have a tenuous relationship with the labor market; in fact they may have strong company ties. Thus, in terms of postretirement income, these involuntary retirees may be more like voluntary retirees, controlling for tenure.

Research supports the hypothesis that the reason for labor force withdrawal influences ones economic well-being while in retirement. Epstein (1966) finds that many of the early Social Security claimants are forced to take the lower benefits because of the need to supplement already low earnings. Parnes and Nestel (1981) find that the replacement ratio differs from about 55 percent for men who retired voluntarily at age 65 to 29 percent for men who retired earlier because of health reasons. Unfortunately, neither study employed multivariate techniques which control for factors other than

reason for retirement. Therefore, although the reason for an individual's leaving the labor force appears to be an indicator of his financial position once he is considered "retired," further study is needed to determine the nature of the relationship.

Not only will the reason for retirement influence a worker's financial position after retirement but it will also affect his outlook toward life once he has "retired." Individuals who voluntarily retire from labor market activities are likely to be more satisfied with their life than those who were forced from the labor market because of health, lack of job opportunities or a company's compulsory retirement plan. Voluntary withdrawal from the labor force indicates a complacent attitude, but withdrawal from the labor force because of reasons outside one's control may intensify feelings of helplessness and isolation which may transmit into dissatisfaction with life. Again this hypothesis is supported by Parnes and Nestel, who find a greater percent of those men voluntarily retiring from the labor force happier with most aspects of their life than those men who retired because of health or because of company plans.

One could argue that those who retire voluntarily will do so only because their income level requires little change in their standard of living while those who retire involuntarily may or may not have sufficient income for living; thus it is income which is the determining factor in life satisfaction after retirement. This argument in turn raises the issue of the importance of relative versus absolute income in determining postretirement satisfaction. The "relative income hypothesis" would argue that life satisfaction is a function of the change in one's income, i.e., the amount of postretirement income one has relative to preretirement income. This contrasts with the hypothesis which states that life satisfaction is a function of the absolute

value of income, i.e., the actual amount of post retirement income received. The "relative income hypothesis" draws theoretical support from the concept of relative deprivation and comparison of standards. That is, an individual with an adequate absolute income level can have a sense of feeling deprived because his comparisons are with other persons or groups whose income is higher;[1] this same individual may not be objectively deprived in the sense of lacking certain things. Analagously when a person reaches retirement and his income is reduced, his comparison may be his income level prior to his labor force withdrawal. Because of this comparison, two retired individuals having the same absolute level of income may not be equally happy since the income is a smaller proportion of preretirement income for one. On the other hand, they may be equally happy because they are receiving the same amount of absolute income.

Numerous studies support the positive relationship between income and life satisfaction for the aged. Chatfield (1977) found that there is lower satisfaction from loss of income than from loss of one's job while Donnenwerth et al (1978) found that race differences are negated when controlling for income. Spreitzner and Snyder (1974) found that "economic sufficiency" and health were the strongest predictors of life satisfaction among the aged. Unfortunately, with the exception of Spreitzner and Snyder, the studies were conducted using regional samples and were analyzed without controlling for the numerous other factors influencing life satisfaction.

While income, however measured, is one component of life satisfaction there is evidence of a number of factors all working to influence satisfaction. Health problems have been found to be a major factor

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[1]For extensive discussion of relative deprivation and comparisons see Runciman (1966) or Morgan (1968).

influencing life satisfaction (Snider, 1980; Edwards and Klenmack, 1973). Also while in the labor force, work can be a large part of a workers' life and it can be a source of status and satisfaction (or dissatisfaction). When a worker retires from the labor force much of this is removed. If a worker has gained status through his job, was satisfied with his job or if his job was an important part of his life, the loss of that job at retirement may be more likely to lead to dissatisfaction. On the other hand, job satisfaction may be indicative of a person happy with life in general, and thus, a man happy with his job may continue to be happy with his life even after retirement. Even though previous studies have found linkages between a retiree's life satisfaction and income, status, route to retirement, and health, they have not looked at these effects net of the other effects.

DATA AND METHODOLOGY

The data used in this study are drawn from the older men's cohort of the National Longitudinal Surveys of Work Experience.[2] In order to be part of this sample a man must have been interviewed in 1978, and retired for at least one year prior to 1978[3]--the year the postretirement data are drawn--so as to exclude men who have only been retired a short time and thus have not yet fully experienced retirement. A person is considered retired if he responded affirmatively to the question "Have you ever retired from a job either

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[2]This survey, which initially included interviews with a nationally representative sample of about 5,000 men aged 45-59 in 1966, has repeatedly interviewed respondents through 1981. All data are weighted to reflect the national population. For a complete discussion of the weights and data see The National Longitudinal Surveys Handbook.

[3]To the extent that retirees who have died prior to 1978 differ in terms of satisfaction with life or income the sample is biased. However, assuming the proesses are the same for those who die early, sample biases of this type were

voluntarily or involuntarily?"[4] In 1966 respondents were asked a battery of questions about the longest job they held. However, the psychological questions, job satisfaction and the importance of work, and hourly rate of pay were asked only in that year.[5] Therefore,in order to get psychological job information and wage data, it was necessary to further restrict the sample to those who retired after the 1966 survey.

To measure pension and Social Security income a logarithmic function[6] of the amount of income the retiree received from pension and Social Security[7] was used. As shown in Table 1, income from these sources accounts for a large percentage of a retiree's income. Pension and Social Security income account for about 77 percent of a white retiree's income and 86 percent of a Black retiree's income, with 85 percent of the retirees receiving some Social Security income and over half receiving pension income.

Life satisfaction is measured using the question "Overall, how happy would you say you are with your life?." If the respondent replied that he was very happy he was coded 1; if he replied somewhat happy or unhappy he was coded 0. Table 1 shows that about half the retirees were very happy with

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largely negated through the use of multivariate analysis.

[4]Self reporting of retirement is but one way of determining a man's labor market status. It has the disadvantage of including those men who returned to work after they "retired" but has the advantage of looking at all characteristics of all men who have ever retired from a job. By using the self report definition I have included all men potentially eligible for pension or Social Security benefits and have not excluded a nonrandom group of men because they returned to work.

[5]For most respondents 1966 job was also the longest job, hence, job importance job satisfaction, and hourly rate of pay were are obtained for the longest job.

[6]The logarithmic function is used in order to discount intervals between relatively high levels of income.

[7]The question on Social Security income asks how much income the respondent received from Social Security or Railroad Retirement; hence, analysis is

their life while about half expressed some level of unhappiness.

Since retirement benefits are usually based on length of time spent with an employer, the job most likely to influence an individual in retirement is the longest job held since leaving school. Although it could be argued that the occupation one holds would have the greatest impact on retirement, both financially and psychologically, industry variables are used to predict financial success in retirement, but occupational status is used to predict psychological satisfaction. This differentiation was done in an attempt to control for pension benefits, which often differ by industry while the occupation one holds becomes more relevant when discussing life happiness because it is the occupation and not the industry which determines one's prestige in the labor market. In short, it is the occupation that gives a man his identity in the labor market--an identity which is removed upon retirement.

In order to capture further the availability and amount of pension income, tenure at longest job, hourly rate of pay, percent of industry unionized[8], and education are included in the income model. Since unionization data for the longest job are not available on the NLS, the percent of the industry unionized in 1970 was used (Freeman and Medoff, 1979). Education is included in order to capture occupation/status differentials in pensions. A series of dummy variables (coded 1 if the respondent has the characteristics, 0 if not) on reason for retirement is included in both models in order to separate those retiring because of a

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actually on a compilation of Social Security and Railroad Retirement income.

[8]Data for wages were not available for longest job, hence, hourly rate of pay for current or last job as of 1966 was used. Unionization data from 1970 were used because the effects of unionization is through pension negotiations and it was felt that union membership prior to retirement would capture that

compulsory retirement plan, health reasons, or labor market reasons from those retiring voluntarily.[9]

Health and marital status are important predictors of both life satisfaction and postretirement income. Health impairments limit both work and nonwork activities; life satisfaction may be diminished because of restricted activities, and income may be restricted because of the inability to gain labor market income. Married retirees may not feel as much isolation as their unmarried counterparts, and marital partners provide another potential income source. Hence health impairments should reduce life satisfaction and income while being married should increase both satisfaction and income.

To test the relative versus actual income hypothesis life satisfaction equations were run twice, once using a ratio of postretirement income to preretirement income and a second time using postretirement income as independent variables[10]. Preretirement income is defined as income received during 1965. In order to control for the differing situations faced by blacks and those retired for only a short period of time, length of time retired and race are included in the models.

The following functional specifications are utilized:

(1) ln Y = f(Tenure, Agric, Mining, Fire, Service, Transp, Trade, PA, Mfgd, Mfgn, Hth, Comp, Joblos, Wage, Union, Educ, Msp, Black, Length)

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effect.

[9]Retirees were classified on the basis of their answer to the question "Why did you retire?". If they did not answer the question or they said they retired voluntaily, they were hand edited to see if they had a history of joblessness or health problems. If joblessness or health problems appeared in their past they were recoded.

[10]The equations were also run with both relative income and absolute income in

(2) Satis = g(Duncan, Hth, Comp, Joblos, Jsat, Jimp, Rethth, Income, Msp, Black, Length)

(3) Satis = h(Duncan, Hth, Comp, Joblos, Jsat, Jimp, Rethth, Increl, Msp, Black, Length)

where:

ln Y = Log of postretirement income (1978)

Satis = A dummy variable indicating happiness with life (1978)

Agric = A dummy variable indicating longest job employment in the agricultural industry

Fire = A dummy variable indicating longest job employment in the finance, insurance, or real estate industry

Mining = A dummy variable indicating longest job employment in the mining industry

Service = A dummy variable indicating longest job employment in the service industry

Transp = A dummy variable indicating longest job employment in the transportation, communications, or public utilities industry

Trade = A dummy variable indicating longest job employment in the trade industry

PA = A dummy variable indicating longest job employment in the public sector

Mfgd = A dummy variable indicating longest job employment in the durable manufacturing industry

Mfgn = A dummy variable indicating longest job employment in the nondurable manufacturing industry

Tenure = Number of years at longest job

Hth = A dummy variable indicating retirement because of health

Comp = A dummy variable indicating retirement because of a compulsory plan

Joblos = A dummy variable indicating retirement because of unemployment

Wage = Hourly rate of pay at current or last job (1966)

Union = Percent of industry of longest job unionized in 1970

Educ = Highest grade completed (1966)

Duncan = Duncan index of socioeconomic status of longest job

Rethth = A dummy variable indicating health problems (1978)

Msp = A dummy variable indicating married with spouse present (1978)

Black = A dummy variable indicating the respondents race

Jsat = A dummy variable indicating job satisfaction (1966)

Jimp = A dummy variable indicating job importance (1966)

Income = Postretirement income (1978)

Increl = A ratio of postretirement income (1978) to preretirement income (1966)

Length = Number of years since retirement (1978)

Ordinary least squares (OLS) was employed to analyze the income models while probit analysis was used in the life satisfaction models in order to avoid potential bias that may occur using OLS with a dichotomous dependent variable. The models were also run separately for blacks and whites because blacks have different longest job characteristics and individual characteristics from whites (Thompson, 1979).

FINDINGS

In general the relationship between work and retirement holds for both blacks and whites; however, the nature of this relationship is vastly

different for the two groups. Table 2 shows that although tenure and wage exert a strong positive correlation with postretirement income for both groups, the effects of industry, unionization and education differ drastically. For whites, unionization and education are positively correlated with postretirement income showing the strength of unions in pension negotiations and the positive role that status/occupation may have in determining amount of pensions. However, for blacks, unionization and education are not significant predictors of postretirement income but industry effects can be powerful. This could be due to the nature of the jobs held by blacks. That is, since unions are dominated by whites, even though an industry is heavily unionized a black man's pension coverage may be unaffected as he may be in a nonunionized sector of the industry.

The aforementioned findings have shown linkages to postretirement income of tenure, wage rate, and route to retirement for both blacks and whites; unionization and education for whites; and industry for blacks. Even though specific variables differ in their effects for blacks and whites, the variables which are significant predictors of postretirement income are also linked to labor market success. Thus, workers with financial success while working are also the ones who have the most income coming in during retirement. Those men drifting from job to job while working or going through spells of unemployment and drifting into retirement are also the men who receive the lowest pecuniary benefits when retired.

Table 3 shows the impact of the labor market on a retiree's satisfaction with life and the impact of relative versus absolute changes in income on retirement. The most striking finding is the support of the "absolute income hypothesis" and the lack of evidence for the "relative income hypothesis." Postretirement income is a strong positive influence on life satisfaction

while postretirement income relative to preretirement income is an insignificant predictor of a retiree's life satisfaction. Thus, it becomes almost irrelevant to discuss replacement ratios when looking at the retirement experience since it is the absolute level of income a retiree receives that determines his satisfaction with life.

Other hypothesized relationships between work and postretirement life satisfaction generally hold for whites but not for blacks. This may indicate that blacks are immune from the psychological carry over of labor force experiences into retirement. For whites, importance of job is a negative predictor of retirement life satisfaction indicating that the loss of a job at retirement is critical to happiness for someone to whom work is important. Job satisfaction, on the other hand appears to be a better predictor of a person satisfied with life in general than a person who places a great deal of resources in his job. Being involuntarily retireed from the labor force deters life satisfaction only if one retires for health reasons. These men may have wanted to continue working but cannot because of deteriorating health. Being forced from the labor market because of compulsory plans or market conditions does not prohibit a man from working even though he is "retired". As expected, health problems in retirement create dissatisfaction with life probably because health impairments limit the amount and kind of activities a retiree can pursue. Retired workers who are married are significantly happier with their life than those who are not, probably because of their freedom from the sense of isolation brought about by living alone. Occupational status while in the labor market is not significantly related to postretirement life satisfaction.

SUMMARY AND CONCLUSIONS

This paper has demonstrated that a retiree's financial and psychological well-being in retirement are determined, to a considerable extent, by his activities while in the labor force. Both black and white workers with successful labor market experiences--long tenure with an employer, high wages, little history of unemployment, and no health problems--are likely to have a better financial situation in retirement. This improved financial situation is transmitted into greater life satisfaction.

Even though postretirement psychological and economic well-being is linked to labor market activities, the effects differ for blacks and whites. White men appear to be psychologically affected by the loss of a job while a black man's postretirement psychological ties to the labor market appear to be purely financial. Financially white retirees appear to gain from union pension negotiations while black men rely on industry characteristics--the unions direct influence is insignificant.

One of the most interesting indirect effects of the linkage between one's labor market experiences and one's retirement experience is the lack of support for the "relative income hypothesis." That is, life satisfaction is not related to the comparison of retirement income to preretirement income but is related solely to the absolute level of income after retirement. This indicates that the commonly used "replacement ratios" are not the most appropriate variables to be studied when looking at a retiree's income if we are concerned with his psychological well-being; instead we should be looking at the absolute level of his postretirement income.

In summary, this study has found that a retiree's life in retirement is heavily linked to his earlier labor force experiences. Because he physically removes himself from the labor market does not mean that his actions while he

was there are no longer a relevant part of his life. In fact they play a rather large role in determining his economic and psychological well-being.

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Table 1 Analysis of the Dependent Variables

	Black	White	Total
Mean Pension Income	1936	2650	2592
Mean Social Security Income	2986	3439	3403
Percent of Total Income:			
Pension	24.7	25.9	25.8
Social Security	61.2	50.9	51.8
Pension and Social Security	85.9	76.8	85.9
Percent Receiving:			
Pension Income	50.8	61.2	60.4
Social Security Income	85.1	85.0	85.0
Percent Very Happy	43.3	52.3	51.6
N	400	983	1384

Table 2 Ordinary Least Squares Results for Income Equations

Independent variables	Black	White	Total
Tenure	.008	.013	.011
	(2.06)	(4.29)	(5.04)
Wage	.001	.0004	.0004
	(6.61)	(4.98)	(6.20)
Educ	.019	.034	.033
	(1.90)	(4.34)	(5.19)
Agric	.400	-.093	-.061
	(2.01)	(.66)	(.52)
Mining	.549	-.227	-.176
	(2.05)	(1.48)	(1.37)
Mfgd	.409	-.013	.010
	(2.99)	(.15)	(.14)
Transp	.260	-.006	.003
	(1.60)	(.05)	(.03)
Trade	.428	.098	.123
	(2.16)	(.83)	(1.25)
Fire	-.012	.214	.233
	(.02)	(1.33)	(1.70)
PA	.650	.403	.425
	(3.76)	(3.53)	(4.49)
Mfgn	.157	.100	-.078
	(1.96)	(1.01)	(.94)
Service	.326	.057	.077
	(1.75)	(.44)	(.73)
Hth	-.237	-.003	-.030
	(2.84)	(.05)	(.65)
Comp	.064	.065	.061
	(.67)	(1.03)	(1.18)
Joblos	-.428	-.291	-.298
	(2.46)	(2.47)	(3.07)
Length	-.019	-.262	-.025
	(1.34)	(2.68)	(3.09)
Msp	.205	.242	.241
	(2.57)	(3.75)	(4.60)
Black	--	--	-.050
	--	--	(.72)
Constant	7.12	7.65	7.63
R^2 (adj)	.353	.254	.273
F	9.91	13.28	19.66
N	296	649	945

t-statistics in parenthesis

Note: The omitted category for the industry dummy variables is employment in the construction industry. About 9.5 percent of the sample was employed in that industry for their longest job. Only wage and salary workers are in this sample.

Table 3 Probit Estimates For Life Satisfaction

Independent variables	Black	White	Maximum Likelihood Estimates Total	Black	White	Total
Hth	-.227	-.506	-.473	-.099	-.474	-.439
	(1.27)	(4.07)	(4.60)	(.54)	(3.77)	(4.21)
Comp	-.229	-.086	-.110	-.140	-.076	-.098
	(1.08)	(.60)	(.93)	(.65)	(.52)	(.82)
Joblos	-.188	.035	-.041	-.311	-.128	-.151
	(.24)	(.07)	(.10)	(.83)	(.50)	(.71)
Jsat	.164	.470	.432	.124	.478	.438
	(1.07)	(4.58)	(5.07)	(.80)	(4.67)	(5.46)
Jimp	-.084	-.244	-.221	-.027	-.251	-.227
	(.52)	(2.14)	(2.34)	(.16)	(2.20)	(2.41)
Rethth	-.432	-.372	-.388	-.410	-.361	-.379
	(2.31)	(3.23)	(4.05)	(2.21)	(4.57)	(3.95)
Duncan	.004	-.002	-.002	.001	-.003	-.002
	(.69)	(.70)	(.63)	(.23)	(1.19)	(1.24)
Msp	.122	.746	.655	.039	.730	.636
	(.73)	(5.08)	(5.56)	(.23)	(4.93)	(5.35)
Black	--	--	-.075	--	--	-.056
			(.50)			(.37)
Length	-.028	-.006	-.003	-.030	.007	.004
	(.94)	(.29)	(.18)	(.99)	(.30)	(.24)
Income	--	--	--	.0006	.00001	.00001
				(2.67)	(1.65)	(2.03)
Increl	-.004	-.026	-.025			
	(.15)	(.33)	(.37)	--	--	--
Constant	.332	.139	-.048	-.035	-.233	-.147
N	303	707	1010	303	707	1010

Asymptotic t-statistics in parentheses.